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Order Instituting Rulemaking to Continue Implementation and Administration of California Renewables Portfolio Standard Program.	Rulemaking 11-05-005 (Filed May 5, 2011)

ADMINISTRATIVE LAW JUDGE'S RULING REQUESTING COMMENTS ON REVISED STAFF PROPOSAL AND UPDATED ALTERNATIVE PROPOSALS FOR A METHODOLOGY TO IMPLEMENT PROCUREMENT EXPENDITURE LIMITATIONS FOR THE RENEWABLES PORTFOLIO STANDARD PROGRAM

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1. Introduction

The Revised Staff Proposal for the procurement expenditure limitation (PEL) for the renewables portfolio standard (RPS) is set forth in this ruling. The Revised Staff Proposal carries forward the general framework proposed by staff in the initial staff proposal filed in the July 23, 2013 Administrative Law Judge's (ALJ) Ruling Requesting Comments on Staff Proposal for a Methodology to Implement Procurement Expenditure Limitations for the Renewables Portfolio Standard Program (July Ruling). This process is part of the Commission's implementation of Senate Bill (SB) 2 (1X) (Simitian), Stats. 2011, ch. 1.[1]

Several changes based on parties' comments have been made to the methodology initially proposed in the staff proposal set out in the July Ruling.[2] Quantitative examples of an illustrative procurement expenditure limitation

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[1] Among other things, the Commission is instructed to put in place a method for calculating and administering the new procurement expenditure limitations for procurement to meet the RPS by all investor-owned utilities (IOUs). The statutory requirements are set out in Pub. Util. Code § 399.15(c)-(g) (Attachment A to this ruling). All further references to sections are to the Public Utilities Code, unless otherwise noted.

[2] Comments on the Staff Proposal were filed on September 26, 2013. On November 20, 2013, Energy Division staff facilitated a workshop to discuss the Staff Proposal and three Alternative Proposals. Alternative proposals were filed and served by the California Wind Energy Association and the Large-Scale Solar Association; Southern California Edison Company (SCE); and Energy Producers & Users Coalition, California Large Energy Consumers Association, California Manufacturers & Technology Association.

applying the Revised Staff Proposal are provided using the data set Energy Division staff served to the service list of the RPS proceeding (Rulemaking (R.)11-05-005) on January 21, 2014.[3] The data set and a model illustrating the Revised Staff Proposal are available at the Recent Updates section of the RPS section of the Commission's website.[4]

2. Plan for Comments on This Ruling

At the end of this ruling is a series of questions seeking comment on the Revised Staff Proposal and on any updated alternative proposals. Unlike the situation at the time of the July Ruling, the Revised Staff Proposal and any updated alternative proposals will be filed and served at the same time.[5] Thus, to the extent possible, commenters should comment on the issues raised in the questions both with respect to the Revised Staff Proposal and with respect to any updated alternative proposals that are submitted. No specific format for commenting on the alternative proposals is required, but one set of comments should be provided covering the Revised Staff Proposal and any updated alternative proposals.[6]

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[3] The illustrative data set was provided in an Excel spreadsheet labeled "dataset_RPS_PEL_proposals.v3.xlsx." The illustrative data set is based on publicly available information filed by SCE in the RPS proceeding and by advice letter to implement authorized revenue requirements. The illustrative data set is not intended to represent SCE's actual RPS procurement.

[4] http://www.cpuc.ca.gov/PUC/energy/Renewables/index.htm

[5] *See* Administrative Law Judge's Ruling Revising Schedule for Filings to Develop a Procurement Expenditure Limitation for the California Renewables Portfolio Standard (January 29, 2014).

[6] This is unlike the requirements set forth in the July Ruling and the subsequent Administrative Law Judge's Ruling Granting in Part Request of the Large-Scale Solar Association, California Wind Energy Association and The Utility Reform Network for

Footnote continued on next page

When comments make quantitative assertions or undertake quantitative analysis, quantitative examples should be provided. Spreadsheets, if any are used, should be filed in PDF-A format, but should be served by e-mail on the service list in their original form.

3. Guiding Principles

The Guiding Principles included in the July Ruling were generally supported by the parties. In preparing their comments, parties should keep these guiding principles in mind. A PEL for the RPS should:

- Rely on a transparent process;
- Reflect the expected costs of achieving and maintaining the 33% RPS requirement;
- Realistically minimize the costs of achieving and maintaining the 33% RPS requirement;
- Facilitate coordination and consistency between the RPS and the Commission's long-term procurement planning proceeding (LTPP); and
- Encourage portfolio level optimization by IOUs.

4. Revised Staff Proposal

Summary

- Timeframe: 10-years, forward looking.
- PEL Ratio: The ratio of an IOU's forecasted RPS procurement expenditures relative to the IOU's forecasted total effective revenue requirement over a 10-year period. The PEL Ratio is used by the Commission to make the determination that the RPS

Extension of Time for Comments on the July 23, 2013 Administrative Law Judge's Ruling and Setting Further Schedule (September 9, 2013), which required the comments on alternative proposals be filed separately.

procurement expenditure limitation (PEL) is set at a level that does not result in a disproportionate rate impact.

- PEL Budget: Equals the cumulative sum of the numerator of the PEL Ratio, which is the IOU's total forecasted RPS procurement expenditures over the 10-year period, including incremental procurement needed to achieve and maintain the RPS procurement quantity requirements.[7]
- PEL Monitoring Process: IOUs report progress toward RPS procurement requirements and account for accrued RPS procurement expenditures relative to the PEL Budget.
- Insufficient PEL Reporting Process: IOUs file a tier 3 advice letter with the Commission when RPS procurement expenditures associated with contracts and utility-owned generation (UOG) reach 90% of the PEL Budget.
- Metric to determine if incremental procurement in excess of the PEL results in a de minimis rate impact: If an IOU cannot meet the RPS procurement requirements within its PEL Budget, the IOU may refrain from entering into new RPS contracts or utility-owned renewable facilities, unless incremental RPS procurement is available that has a positive net market value.

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[7] The numerator of the PEL Ratio becomes the PEL Budget once the Commission determines that the limitation is set at a level that does not result in a disproportionate rate impact.

4.1. Methodological Framework

The Revised Staff Proposal establishes a two-step methodology for setting the PEL that is based on the factors set out in Section 399.15(c) and (d).[8] The first step uses a ratio of the IOU's RPS procurement expenditures to the IOU's total revenue requirement over a ten-year period, for the purpose of evaluating whether the PEL is set at a level that prevents disproportionate rate impacts.; i.e.,

$$\frac{\text{IOU's RPS procurement expenditures}}{\text{IOU's total revenue requirement}}$$

The numerator consists of the actual or forecasted (as relevant; see §§ 4.2.1.1., 4.2.1.2, below) money spent by the IOU to fulfill its RPS-eligible

[8] These sections mandate that:

> (c) The commission shall establish a limitation for each electrical corporation on the procurement expenditures for all eligible renewable energy resources used to comply with the renewables portfolio standard. In establishing this limitation, the commission shall rely on the following:
>
> (1) The most recent renewable energy procurement plan.
>
> (2) Procurement expenditures that approximate the expected cost of building, owning, and operating eligible renewable energy resources.
>
> (3) The potential that some planned resource additions may be delayed or canceled.
>
> (d) In developing the limitation pursuant to subdivision (c), the commission shall ensure all of the following:
>
> (1) The limitation is set at a level that prevents disproportionate rate impacts.
>
> (2) The costs of all procurement credited toward achieving the renewables portfolio standard are counted towards the limitation.
>
> (3) Procurement expenditures do not include any indirect expenses, including imbalance energy charges, sale of excess energy, decreased generation from existing resources, transmission upgrades, or the costs associated with relicensing any utility-owned hydroelectric facilities.

procurement contracts (contracts) and operate its RPS-eligible UOG facilities in each of the 10 years of the PEL period.

The denominator consists of the IOU's forecasted total revenue requirement, based primarily on the IOU's effective revenue requirement at the time the PEL calculation is made.[9] Specifically, Staff proposes a 2.75% annual escalation of the IOU's effective revenue requirement throughout the 10 years of the PEL period, with one adjustment explained below (§ 4.2.2).

This ratio of the IOU's RPS procurement expenditures to the IOU's total revenue requirement, referred to as the "PEL Ratio," is the basis on which the Commission will make its determination that the RPS procurement expenditure limitation does not result in a disproportionate rate impact. The second step of the Revised Staff Proposal relies on the numerator of the PEL Ratio to establish an expenditure limitation, referred to as the "PEL Budget," for each IOU that is equal to the IOU's cumulative forecasted RPS procurement expenditures over the 10-year timeframe.

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[9] The IOU's "total revenue requirement" consists of:

1. The effective revenue requirement established in the IOU's most recent general rate case (GRC) (if year 1 of the PEL is the second attrition year of the GRC, the GRC component of the "total revenue requirement" will be the effective revenue requirement for the second attrition year of the GRC), *plus*
2. The effective total transmission revenue requirement authorized by the Federal Energy Regulatory Commission, *plus*
3. Any other Commission-authorized effective revenue requirements that contribute to rates.

This methodology and its inputs, defined below, implement the statutory elements in Section 399.15(c) by:

- Making RPS procurement expenditures the numerator [§ 4.1.2, below];
- Relying on the "RPS net short" calculation made by IOUs according to the Commission-authorized methodology established in the RPS proceeding to account for the potential that some planned resource additions may be delayed or cancelled [§ 4.2.1.3, below].

The PEL Ratio and its inputs implement the statutory directions in Section 399.15(d) by:

- Using the PEL Ratio to ground a Commission determination that the PEL is set at a level that avoids disproportionate rate impacts [§ 4.1.3, below];
- Including in the numerator all procurement credited toward RPS compliance [§ 4.1.2, below];
- Excluding indirect expenses when setting the PEL Budget [§ 4.2.1, below].

4.1.1. Timeframe: 10-year period, forward looking

The obligation to comply with the RPS program continues indefinitely. (Section 399.15(b)(2)(B).) The vast majority of the IOUs' RPS procurement is made through long-term contracts (e.g., 10 years or longer), with incremental renewable procurement being added to an IOU's portfolio each year. While California's RPS program is relatively mature today, procurement of RPS-eligible generation takes place within the western region's diverse and dynamic renewable energy market.

In order for the procurement expenditure limitation to effectively place a limit on procurement undertaken by a utility to meet its RPS procurement quantity requirement (PQR)[10], Staff proposes a cost containment framework that is forward looking rather than retrospective. The forward looking methodology includes all RPS procurement expenditures expected to be incurred during the 10-year period.[11] That is, the methodology in the Revised Staff Proposal does not ignore committed procurement from existing contracts, as explained in detail below. A multi-year timeframe accounts for the dynamic quality of an IOU's RPS portfolio and will provide flexibility for IOUs to manage RPS procurement expenditures at a portfolio level.[12] Specifically, Staff proposes that the initial PEL Budget cover years 2014-2023.

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[10] The method for determining PQRs is set forth in D.11-12-020.

[11] Once an IOU receives Commission approval of an RPS power purchase agreement or UOG facility, the associated expenditures are recovered from ratepayers as authorized by the Commission.

[12] An IOU's RPS portfolio is dynamic for several reasons. These dynamics impact the IOU's RPS compliance position, as well as the level of RPS procurement expenditures in any given year.

- Annual generation from intermittent renewable resources will vary from year to year; thus actual expenditures for these resources will vary.
- Projects in development may achieve commercial operation later than expected resulting in lower procurement expenditures in the near term, or contracts may be terminated prior to a project achieving commercial operation.
- In any given year, RPS contracts may expire, impacting total procurement expenditures.
- RPS procurement quantity requirements are a function of retail sales, thus changes in an IOU's load can impact RPS procurement requirements.

In comments on the initial staff proposal, parties generally support the long-term structure proposed by staff, but some parties expressed concern about forecast error and about how too-frequent updates to methodological inputs may undermine the effectiveness of the PEL. To balance these concerns, the Revised Staff Proposal includes an administrative process in the fourth year of the 10-year PEL period, when the renewable resource cost assumptions are updated and the Commission evaluates the IOU's total effective revenue requirements compared to forecasted figures in the PEL Ratio.

4.1.2. All RPS Procurement Included in Procurement Expenditure Limitation

Section 399.15(d)(3) directs that the costs of all procurement used to meet the RPS should be included in the PEL. The Revised Staff Proposal maintains the approach of the initial staff proposal, namely that the PEL include RPS expenditures associated with all RPS procurement and sales, specifically:

a. All RPS procurement between an IOU and an independent power producer or marketer, regardless of when the contract was executed, when the facility achieved commercial operation, or the procurement program in which the contract/facility participated.[13]
b. All RPS-eligible UOG facilities.

4.2. Procurement Expenditure Limitation Methodology

[13] For example, contracts with renewable qualifying facilities executed prior to the existence of California's RPS program; contracts resulting from RPS solicitations or bilateral negotiations; contracts resulting from IOU solar photovoltaic programs; contracts resulting from the Renewable Auction Mechanism (RAM); feed-in tariff (FIT) contracts; or RPS-eligible procurement authorized by the Commission in a proceeding other than the RPS proceeding.

As outlined above, the Revised Staff Proposal establishes a two-step methodology for setting the limitation. The first step calculates the ratio of an IOU's RPS procurement expenditures relative to the IOU's total revenue requirement over a 10-year period and is the basis for the Commission's determination that the RPS procurement expenditure limitation does not result in a disproportionate rate impact (Section 399.15(d)(1).) The Revised Staff Proposal refers to this as the "PEL Ratio."

In step two, the actual procurement expenditure limitation is calculated based on the numerator of the PEL Ratio established in step one. Specifically, a "PEL Budget" is calculated equal to the cumulative forecasted RPS procurement expenditures over the 10-year PEL period that is necessary for the IOU to achieve and maintain the RPS procurement requirements (currently, 33% of retail sales in 2020 and each subsequent year).[14] Thus, the PEL Ratio forms the basis for a "PEL Budget" against which all actual RPS procurement expenditures will be counted to monitor whether an IOU can meet its RPS procurement requirements within the limitation. This "budget" approach based on actual RPS expenditures is a simple and transparent method for setting the limitation and monitoring an IOU's RPS expenditures against the limitation.

Table 1, below, shows a hypothetical IOU's initial PEL ratios ranging from 14.6% to 21.2% within the 2014 - 2023 PEL period, based on a public data set representative of Southern California Edison Company's 2013 effective electric

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[14] Assembly Bill (AB) 327 (Perea), Stats. 2013, ch. 611, became effective January 1, 2014. It provides, among other things, that:

> The commission may require the procurement of eligible renewable energy resources in excess of the quantities specified in paragraph (2).

Footnote continued on next page

revenue requirement, RPS procurement expenditures and forecasted renewable net short (RNS).[15] According to the Revised Staff Proposal, the PEL Budget in this example would be set at $26,918 million, the cumulative forecasted RPS procurement expenditures, provided that it is determined by the Commission that the IOU's RPS procurement expenditures relative to the IOU's total revenue requirement is sufficient to prevent disproportionate rate impacts. To stay within its procurement expenditure limitation, an IOU's updated forecast of RPS procurement expenditures could not exceed $26,918 million.

(Section 399.15(b)(3)).

[15] On January 21, 2014, Energy Division staff served an illustrative public data set in a spreadsheet labeled "dataset_RPS_PEL_proposals.v3.xlsx. The data set is for illustrative purposes only, to allow comparison and evaluation among various proposals for the RPS procurement expenditure limitation methodology. Examples using the data set are not intended, and should not be construed, to represent any actual or potential PEL Ratio or PEL Budget for any IOU.

The data set and a model illustrating the Revised Staff Proposal are available at the Recent Updates section of the RPS section of the Commission's website. http://www.cpuc.ca.gov/PUC/energy/Renewables/index.htm.

Table 1: Illustrative Example of PEL Methodology

Illustrative Example of PEL Methodology	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
RPS Procurement Expenditures ($ millions; forecast)	$1,837	$2,020	$2,024	$2,117	$2,117	$2,742	$3,399	$3,454	$3,563	$3,645
Total Revenue Requirement ($ millions; forecast)	$12,568	$13,046	$13,353	$13,757	$14,078	$15,031	$16,027	$16,429	$16,895	$17,343
Annual PEL Ratios	14.6%	15.5%	15.2%	15.4%	15.0%	18.2%	21.2%	21.0%	21.1%	21.0%
PEL Budget ($ millions; 2014-2023)	$26,918									

This methodology accounts for the mandated increases in RPS procurement from 2011 to 2020, as set by Section 399.15 and implemented by the Commission in D.11-12-020.[16] The escalation from 20% of retail sales in the first compliance period to 33% in the third represents an increase of 65% in the

[16] Section 399.15(b)(2)(B) provides:

> In establishing quantities for the compliance period from January 1, 2011, to December 31, 2013, inclusive, the commission shall require procurement for each retail seller equal to an average of 20 percent of retail sales. For the following compliance periods, the quantities shall reflect reasonable progress in each of the intervening years sufficient to ensure that the procurement of electricity products from eligible renewable energy resources achieves 25 percent of retail sales by December 31, 2016, and 33 percent of retail sales by December 31, 2020. The commission shall require retail sellers to procure not less than 33 percent of retail sales of electricity products from eligible renewable energy resources in all subsequent years.

amount of RPS-eligible generation a utility is required to procure. It is therefore inevitable that total RPS procurement costs will increase from current levels to meet the 33% RPS procurement requirement. The proposed methodology "bakes in" the steady increase in required procurement in two ways:

- by looking at an IOU's total cost of renewable procurement and not at the marginal cost of procuring renewable resources over other conventional sources of electric generation, and
- by using the PEL Ratio to determine whether there would be a disproportionate impact on rates during the 10-year period.

Note that the PEL Ratio of 21.2% in 2020 illustrated above would not result in a 21.2% ratepayer bill impact, because the renewable procurement should offset part or all of the cost of procuring additional conventional sources of generation that are not RPS-eligible.

4.2.1. Calculation of Procurement Expenditures[17]

Section 399.15(c) provides that:

> In establishing this limitation, the commission shall rely on . . . [p]rocurement expenditures that approximate the expected cost of building, owning, and operating eligible renewable energy resources.

Such expenditures will be used to calculate the numerator of a PEL Ratio.

Staff proposes that procurement expenditures consist of:

1) the actual payments made by retail sellers for RPS procurement contracts, and

[17] Section 399.15(d)(3) suggests that "procurement expenditures" may be a term of art, not simply a description of money spent, because the statute lists certain "indirect" expenses that should be excluded from the definition. The Revised Staff Proposal does not take a position on this point, but uses "actual payments" to describe money spent.

2) the revenue requirements associated with RPS-eligible UOG.

An IOU's RPS procurement expenditures will be based on forecasted annual procurement expenditures from executed contracts and UOG over the 10-year period.[18] The PEL will also likely include forecasted procurement expenditures associated with generic incremental procurement from contracts or utility ownership agreements not currently in the IOU's portfolio that are needed to meet RPS procurement quantity requirements. The incremental procurement "need" is the RNS.[19] Staff proposes that the RNS for each IOU should be calculated according to the Commission approved methodology. The RNS may be calculated expressly for setting the PEL or separately as part of the annual RPS procurement plan process.

The initial staff proposal would have calculated forecasted procurement expenditures associated with existing contracts in the IOU's portfolio according to the RNS methodology, which assumes some percentage of the IOU's contracts with renewable facilities that are in development will never come to fruition. Thus, forecasted procurement expenditures ($) associated with this part of the

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[18] Pacific Gas and Electric Company (PG&E), SCE, San Diego Gas & Electric Company, Bear Valley Electric Service, and CalPeco recently forecasted RPS costs, pursuant to the May 10, 2013 Assigned Commissioner Ruling that required submission of 2013 RPS procurement plans. PG&E refiled its forecasted RPS costs on December 4, 2013, pursuant to D.13-11-024.

[19] For example, if an IOU's renewable net short calculation shows that the IOU will not meet its PQR in the third compliance period, or subsequent procurement quantity requirements within the PEL period, the IOU's PEL will include forecasted procurement expenses associated with procurement needed to meet the renewable net short. The RNS calculation is where the statutory direction to account for "the potential that some planned resource additions may be delayed or canceled" is implemented for the PEL. (See Section 399.15(c)(3).)

IOU's portfolio would be reduced commensurate with the reduced procurement (megawatt-hours (MWh)) assumed in the RNS methodology. Procurement expenditures associated with the RNS would be increased to replace the "failed" project, assuming the result is an incremental RNS.

The Revised Staff Proposal, however, does not impute a project failure rate to executed contracts with facilities that are in development for the purposes of setting the PEL. Once the Commission approves cost recovery for an RPS procurement contract, a commitment is made on behalf of the IOU's ratepayers to incur the full costs of the contract, subject to contract terms and conditions. Thus, the Revised Staff Proposal makes the conservative assumption that the procurement expenditures associated with existing contracts will be incurred. The statutory requirement to account for some planned procurement being delayed or cancelled is addressed in the procurement plan process.[20]

Details of how procurement expenditures would be calculated are provided below.

4.2.1.1. Methodology for Calculating Actual Procurement Expenditures from Executed Contracts or Utility-Owned Generation

i. For contracts, procurement expenditures equals the actual payments made by the IOU to the seller (or sellers, in the case where firming and shaping services are contracted with a third party), in each past year during the PEL period. For example, procurement expenditures equal the time of delivery (TOD)

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[20] The RNS assumptions with respect to failure rate and other elements of forecasted procurement are maintained for <u>forecasted</u> procurement expenditures for purposes of the PEL. See § 4.2.1.3., below.

adjusted contract price paid for each MWh of generation.

ii. For UOG, procurement expenditures equal the actual revenue requirement associated with the RPS-eligible facility or facilities in each past year during the PEL period.

iii. Payments received by an IOU from RPS sales contracts should be subtracted from the procurement expenditures for the same contract that are counted towards the PEL.[21] For example, if in 2014 an IOU is forecasted to pay an RPS seller $500,000 according to the terms of a executed contract (Contract A), and the IOU has separately executed a contract (Contract B) to sell a portion of Contract A to another buyer for an estimated $450,000, then $500,000 would be added to the PEL and $450,000 would be subtracted. The result of these two transactions would be a $50,000 procurement expenditure in 2014.

4.2.1.2. Methodology for Calculating Forecasted Procurement Expenditures from Executed Contracts or Utility-Owned Generation

i. For contracts, procurement expenditures equal the forecasted payments made to the seller (or sellers in the case where firming and shaping services are contracted with a third party).

- In the case of an RPS facility that is operational, forecasted procurement

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[21] IOUs are permitted to execute RPS sales contracts, also referred to as "resale contracts." Guidance concerning IOU resale contracts was provided in D.12-11-016, Ordering Paragraph (OP) 17. Resale contracts are described in D.11-12-052, section 3.5.4, and specific rules are set in OP 4 and 5, with regard to contracts that are subject to the RPS portfolio content categories.

expenditures should be calculated as the levelized, TOD adjusted contract price multiplied by the total maximum annual expected MWh generated in each year during the PEL period.[22]

- In the case of executed contacts for facilities that will achieve commercial operation during the PEL period, forecasted procurement expenditures equal the levelized, TOD adjusted contract price multiplied by the total maximum annual expected MWh generated in each year during the PEL period.

ii. For UOG, procurement expenditures equal the forecasted revenue requirement associated with the RPS-eligible facility or facilities.

iii. Payments forecasted to be received by the IOU from executed RPS sales contracts should be subtracted from the procurement expenditures for the same contract that are counted towards the PEL.

4.2.1.3. Methodology for Calculating Forecasted Incremental Procurement Expenditures Associated with Renewable Net Short

During the 10-year PEL period, it is likely that IOUs will need incremental RPS procurement or ownership agreements to achieve and maintain the 33% RPS procurement quantity requirements. The Commission, IOUs, and RPS

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[22] If the capacity of the facility changed during the two past years or will change during the PEL period for any reason, forecasted procurement expenditures should take that into account. For example, if a new RPS facility is being developed and brought online in phases (e.g., 150 megawatts (MW)) over a three year period), forecasted procurement expenditures should be scaled up according to the expected generation amounts during the PEL period.

stakeholders use the RNS methodology to approximate the quantity of renewable energy credits (RECs) needed beyond what is already in the IOU's portfolio to meet RPS procurement requirements.[23] The RNS calculation incorporates assumptions that "some planned resource additions may be delayed or canceled," a requirement of Section 399.15(c)(3).

IOUs file an RNS calculation that shows the quantity of MWh needed to meet RPS procurement quantity requirements over a 20-year period.[24] The current RNS methodology does not include a forecast of the cost associated with incremental procurement to fill an RNS. For the purpose of setting the PEL, staff proposes that procurement expenditures associated with the RNS calculation should be based on resource costs taken from a publicly available source, such as the RPS Calculator.[25]

The current RNS also does not include a rule for what resources or contract types should fill an IOU's RNS. Staff proposes that, for purposes of the PEL, IOUs should utilize a loading order approach to fill the RNS. This is appropriate because (1) California has several statutorily mandated procurement programs for RPS-eligible resource; (2) the RPS program includes procurement from a

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[23] The "REC" is the unit of accounting for RPS procurement and compliance. It represents one MWh of RPS-eligible generation. (Section 399.12(h)). It is used here to mean any RPS-eligible procurement.

[24] IOUs submit RNS calculations in the RPS proceeding with each annual RPS procurement plan and annual RPS compliance report (August 2, 2012 Administrative Law Judge Ruling, R.11-05-005). A proposal from Energy Division staff on revisions to the RNS methodology may be issued in the first quarter of 2014. (See Third Amended Scoping Memo and Ruling of Assigned Commissioner (January 13, 2014.)

[25] The most recent version of the RPS Calculator is available here: http://www.cpuc.ca.gov/PUC/energy/Procurement/LTPP/ltpp_history.htm

diverse set of resources and technology types at different costs and value propositions to the IOU's portfolio; and (3) because the PEL is sensitive to costs. Specifically, IOUs should assume that contract expenditures reflective of mandated procurement programs, up to those program limits, are used to meet an RNS before assuming generic RPS resources are contracted with.[26]

Taken together, RPS procurement expenditures for the proposed initial PEL period can be written as:

Annual Procurement Expenditures $_{(n)}$ = $(PE_a - RS_a) + (PE_f - RS_f) + PE_{RNS}$

Where,

n	=	Each calendar year within 10-year PEL period
PE_a	=	Actual Procurement Expenditures from Executed Contracts and UOG[27]
RS_a	=	Actual Revenues from Resale Contracts
PE_f	=	Forecasted Procurement Expenditures from Executed Contracts and UOG
RS_f	=	Forecasted Revenues from Resale Contracts
PE_{RNS}	=	Forecasted Procurement Expenditures to meet Renewable Net Short.[28]

[26] These programs include the renewable auction mechanism (RAM) for projects between 3 and 20 MW in capacity; utility-run solar photovoltaic (PV) procurement programs; the feed-in tariff (FiT) program authorized by Section 399.20; the additional FiT authorization for bioenergy resources made by SB 1122.

[27] "Actual Procurement Expenditures" are likely to be a factor only in evaluating an IOU's actual procurement relative to the established PEL Budget, not in establishing the PEL for a prospective 10-year period.

[28] That is, procurement that is not currently under contract with the IOU or in the IOU's portfolio.

4.2.2. Forecasting Revenue Requirements

IOU revenue requirements can increase or decrease annually by small or large amounts, but in general, it is reasonable to expect that revenue requirements will increase over time. Staff proposes that the PEL methodology forecast IOU-specific annual revenue requirements based on the IOU's effective revenue requirement at the time the PEL is set, escalated at a steady rate throughout the PEL period to account for ongoing operations, inflation and changes in load (i.e., retail sales).[29] The proposal is a reasonable simplifying assumption for the relatively narrow purpose of setting an IOU's PEL.

Forecasted RPS procurement expenditures (the numerator) should be subtracted from the IOU's effective total revenue requirement prior to making the 2.75% annual escalation. After the annual escalation is applied, the forecasted RPS procurement expenditures will be added to each year's "revenue requirement excluding RPS expenditures" to produce annual forecasted total revenue requirements that uses the same RPS procurement expenditure values in the numerator and denominator of the PEL Ratio. Specifically, Staff proposes that an IOU's annual revenue requirement during the initial PEL period be calculated as:

a. Effective revenue requirement in the year prior to the PEL period (e.g., January 2013 effective revenue requirement) *minus* RPS procurement expenditures associated with RPS contracts and UOG to calculate an "effective revenue requirement excluding RPS expenditures"; and
b. Forecasted annual revenue requirement during PEL period (e.g., 2014-2023), based on a 2.75% annual escalation of

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[29] IOUs implement authorized revenue requirements via the Commission's advice letter process.

annual "effective revenue requirement excluding RPS expenditures" *plus* forecasted RPS procurement expenditures associated with RPS contracts and UOG.[30]

4.2.3. Monitoring the Procurement Expenditure Limitation

Monitoring an IOU's PEL can be incorporated into existing RPS procurement processes. The IOUs' annual procurement plans will include information that is necessary to implement and administer the PEL. Specifically, each IOU's RPS annual procurement plan includes the following information:

- Long-term forecast of supply and demand of RPS resources;
- Renewable net short calculation;
- Long-term forecast of total annual RPS procurement expenditures.

In order for the IOUs, Commission staff, and RPS stakeholders to stay informed about an IOU's RPS compliance position and forecasted procurement expenditures relative to an established PEL, IOUs should also report to the Commission at key decision points along the procurement continuum. These key points were described and illustrated in the July Ruling.[31]

As an ongoing element of the PEL monitoring process, IOUs should also develop a range of strategies for proactive RPS portfolio management, to keep their RPS procurement activities aligned with their PELs. Such strategies might

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[30] An annual escalation factor of 2.75% is consistent with the attrition adjustment adopted by the Commission in SDG&E's most recent GRC. (D.13-05-010, OP 4.) This value is similar to annual changes to IOU effective revenue requirements when averaged over the last 5 - 10 years.

[31] See July Ruling, at 23-24, Attachment C.

include, for example, applying excess procurement from prior compliance periods to meet RPS procurement quantity requirements in a current compliance period; deferring incremental contracting to later years; and/or selling excess RECs.

4.2.4. Insufficiency of PEL to Meet RPS Obligations

Section 399.15(f) addresses the potential situation in which an IOU may not meet its RPS requirements within the limits of its PEL.[32] In order to reduce the likelihood that such a situation would occur, IOUs should actively monitor their RPS procurement in relation to their PELs, as set forth in the previous section of the staff proposal.

If, however, an IOU is approaching the cost limitation, staff proposes that a series of formal steps be undertaken to determine the nature of the problems and allow the IOU to undertake RPS-eligible procurement in compliance with statutory requirements. Staff proposes the following steps:

1. An IOU (or staff, in reviewing an IOU's filings) determines that it has reached, or will soon reach, 90% of its PEL Budget and has not yet met its RPS procurement requirements. For purposes of administration of the PEL

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[32] Section 399.15(f) provides:

> If the cost limitation for an electrical corporation is insufficient to support the projected costs of meeting the renewables portfolio standard procurement requirements, the electrical corporation may refrain from entering into new contracts or constructing facilities beyond the quantity that can be procured within the limitation, unless eligible renewable energy resources can be procured without exceeding a de minimis increase in rates, consistent with the long-term procurement plan established for the electrical corporation pursuant to Section 454.5.

only, "RPS procurement requirements" means 33% of the IOU's retail sales are obtained from RPS-eligible resources.

2. The IOU then makes a showing to the Commission that includes:

   a. An explanation of the feasible measures for proactive management of its RPS portfolio the IOU has taken to achieve its RPS procurement requirements within the PEL Budget, including applying available excess procurement from prior compliance periods to meet a renewable net short during the PEL period;

   b. A list of further feasible measures, if any, available to the IOU;

   c. A calculation of the likelihood that, even taking all feasible measures, the IOU will exceed its PEL Budget without meeting its RPS procurement requirements;

   d. An analysis of whether the IOU can procure additional RPS-eligible resources without exceeding a de minimis increase in rates, consistent with the long-term procurement plan established for the electrical corporation pursuant to Section 454.5 (a condition of Section 399.15(f));

   e. If the IOU chooses to do so, a plan for continuing to procure RPS-eligible resources if the PEL Budget is found to be insufficient to support the projected cost of meeting the IOU's RPS procurement requirements.

3. The required showing should be made in the form of a Tier 3 advice letter, following guidelines to be set by staff, in consultation with the parties.

4. If the Commission determines that the IOU's showing is adequate to meet the requirements of Section 399.15(f), the Commission would adopt the IOU's proposal in a resolution on the Tier 3 advice letter.

In order to determine if incremental procurement in excess of the PEL results in a de minimis rate impact (Section 399.15(f)), staff proposes that the IOU may refrain from entering into new RPS contracts or RPS-eligible UOG, unless incremental RPS procurement is available that has a positive net market value, determined in accordance with a methodology approved by the Commission.

The IOUs utilize a standardized method to determine the net market value (NMV) of an RPS procurement contract using least-cost, best-fit criteria, as required by Section 399.13(a)(4)(A).[33] The NMV quantifies key direct and indirect cost factors and ensures that an IOU's RPS procurement decisions are based on the expected value of the procurement, rather than simply the identification of the contract with the lowest cost. Using the Commission-adopted NMV calculation is an efficient, consistent and transparent way to measure the impact an RPS contract may have on the IOU's overall portfolio. By testing the existence of a "de minimis increase in rates" by using NMV, the Revised Staff Proposal aligns the value of RPS procurement to ratepayers with the function of the expenditure limitation.

4.3. Process for Commission Determination of PEL

The Revised Staff Proposal carries forward the process for determining RPS cost limitation used by the Commission since the initiation of the MPR, though the content of the proposed cost limitation methodology is different. Staff proposes that the Commission will adopt the procurement expenditure limitation methodology in a Commission decision. That decision will authorize Energy Division staff to produce the PEL for each IOU by developing

[33] The Commission most recently defined the methodology for calculating the NMV of RPS procurement contracts in OP 6 of D.12-11-016.

IOU-specific inputs for the PEL and then calculating the PEL for each IOU, in consultation with parties as appropriate.[34]

The calculations made by staff for each IOU's PEL will be presented to the Commission in the form of a draft resolution. The draft resolution will seek Commission approval both for the PEL calculations and for the statutorily required finding that each IOU's PEL, as set forth in the draft resolution, "is set at a level that prevents disproportionate rate impacts." (Section 399.15(d)(1).)

It could be possible for the Commission to decide that the PEL calculated by staff for one or more IOUs complied with the requirements of the methodology, but did not meet the criteria for prevention of disproportionate rate impact. In that case, the Commission would be able to reject the PEL calculated by staff and to adopt a different PEL for a particular IOU that did meet the criteria for preventing a disproportionate rate impact.

5. Questions for Comments

The following questions are intended to guide parties in providing comments, but are not intended to limit the scope of comments.

Some of the questions below explicitly refer to the Revised Staff Proposal. Since updated alternative proposals are being filed and served simultaneously with the Revised Staff Proposal, no questions are expressly directed to updated alternative proposals. Commenters should include discussion of any alternative proposals in their comments. Comments should clearly indicate whether they

[34] This would be analogous to the process for the market price referent (MPR) that was set up in D.05-12-042.

are directed to the Revised Staff Proposal, to a particular updated alternative proposal, or to some or all of the proposals.

The question being responded to should be identified, but does not need to be reproduced. A response may address several questions, so long as all the questions in the group are clearly identified. Comments should not incorporate by reference or attach a party's prior comments or reply comments in response to the July Ruling. If a comment does not respond to a question, but rather to an element of the Revised Staff Proposal (or any updated alternative proposal) directly, please identify the specific part of the Revised Staff Proposal (or updated alternative proposal) that is being addressed.

The questions in this ruling are not intended to duplicate the questions asked in the July Ruling. However, if a commenter believes it is relevant to revisit a question from the July Ruling with respect to the Revised Staff Proposal and/or any updated alternative proposal, the commenter should explicitly identify the question(s) from the July Ruling being addressed.

Parties may identify and comment on issues that are not addressed in the Revised Staff Proposal and/or in the questions below. Commenters doing so should clearly identify and explain the relevance of the additional issue(s). If the issue arises from one of the updated alternative proposals, the source of the issue in the updated alternative proposal must be clearly identified.

Comments and reply comments should provide complete quantitative examples or illustrations where appropriate, using the data set provided by staff to the service list of this proceeding whenever possible. If additional data are used, the source of the data and the basis for using the data must be explained. Comments or reply comments that do not provide quantitative examples of quantitatively-based assertions (e.g., that a particular proposal "would be more costly over a 10-year period") may be accorded less weight.

Comments should be as specific and precise as possible. Legal arguments should be supported with specific citations. All comments should use publicly available materials (for example, the public description of a transaction in a resolution adopted by the Commission). All comments should specifically identify, with respect to each question, whether the potential sources of information addressed in the response to the question are public or confidential. If both public and confidential sources of information are identified, the comments should clearly identify which are public and which are confidential.

Comments on the Revised Staff Proposal and any updated alternative proposals may be filed and served not later than March 19, 2014. Reply comments may be filed and served not later than April 3, 2014.

Questions

1. What adjustments, if any, should be made to the IOU's effective revenue requirements for the purpose of calculating the PEL? For example, should the effective revenue requirement be net of balancing and memorandum accounts or representative of the actual authorized expenses for the year in which the revenue requirement is effective?
2. The Revised Staff Proposal would base the PEL Ratio, in part, on prior year's effective revenue requirement for each IOU. If an IOU has filed a 2014 effective revenue requirement, should that be used to calculate the PEL Ratio for a 2014-2023 period? Why or why not?
    a. Should the effective revenue requirement used for all the IOUs be from the same year? Why or why not?
3. Should the Commission's evaluation of whether or not the PEL Ratio would result in a PEL Budget that prevents a disproportionate rate impact focus on the highest ratio during the PEL period? The average ratio? Something else?

4. Should the Commission's evaluation of whether or not the PEL Ratio would result in a PEL Budget that prevents a disproportionate rate impact focus on any specific rate components of the IOU's total revenue requirement?
5. What are the advantages and disadvantages of a multi-year fixed budget, such as that presented in the Revised Staff Proposal?
    a. Is the 10-year period of the PEL Budget too long, too short, just right? Please explain your reasoning, with quantitative examples if relevant.
    b. Is the revisit of the PEL Budget after four years too long, too short, just right? Please explain your reasoning, with quantitative examples, if relevant.
6. Would your view of a 10-year PEL Budget be different if the RPS PQR were to be increased beyond the levels set in Section 399.15(b)(2)(B), as implemented in D.11-12-020, either by legislative action or by the Commission, using its authority under AB 327? Why or why not?
7. Would your view of the Revised Staff Proposal as whole be different if the RPS PQR were to be increased beyond the levels set in Section 399.15(b)(2)(B), as implemented in D.11-12-020, either by legislative action or by the Commission, using its authority under AB 327? Why or why not?
    a. Does your answer depend on the level at which an increased PQR would be set? For example, would your answer be different if the level were 35% of retail sales in 2025, compared to 50% of retail sales in 2030? Why or why not?
    b. Would your view of each updated alternative proposal as whole be different if the RPS PQR were to be increased beyond the levels set in Section 399.15(b)(2)(B), as implemented in D.11-12-020, either by legislative action or by the Commission, using its authority under AB 327? Why or why not?

Please provide relevant quantitative examples for all responses.

8. Please compare the updated alternative proposals to the Revised Staff Proposal and to each other with respect to the monetary limits (such as the PEL Budget proposed by staff) that would be set by each methodology. Please provide quantitative examples if relevant.
9. The Revised Staff Proposal would rely on an IOU's RNS based on the Commission-approved methodology for RPS procurement plans. This methodology includes the assumption that any RNS resulting from the calculation is first met with excess procurement that is available to the IOU. As a result, the calculation could show that an IOU's RPS procurement need may be deferred for several years. This in turn could significantly reduce the forecasted procurement expenditures to meet the RNS for purposes of setting an IOU's PEL.

    a. For purposes of the PEL, what are the advantages and disadvantages of the RNS assumption described above?
    b. Do the advantages or disadvantages change depending on the timeframe over which the PEL is calculated? How?
    c. If the disadvantages of the RNS assumption outweigh the advantages, what methodology for calculating an IOU's RNS should be used for purposes of the PEL?
    d. Please discuss the same issues with respect to the accounting for excess procurement available to an IOU in each updated alternative proposal.

    Please provide relevant quantitative examples for all responses.

10. Pursuant to Section 4.2.1.2. of the Revised Staff Proposal, forecasted procurement expenditures would be "calculated as the levelized, TOD adjusted contract price multiplied by the total maximum annual expected MWh generated in each year during the PEL period" Is there a standard method for IOUs to determine the total maximum annual expected MWh generated in each year?
    a. If yes, please describe the method and provide quantitative illustrations, if relevant. Please also provide a publicly available source for the method.
    b. If not, how should this be derived?

11. How does annual generation from RPS-eligible facilities currently under contract with California IOUs compare to what the IOU expected to procure? Please use publicly available information in responding to this question. Aggregating the information to preserve any confidential data is acceptable. Please be as quantitatively precise as possible within the limits of the available data.
    a. Are RPS facilities generating approximately equal to the expected generation amount identified in the contract or the advice letter filed seeking Commission approval of the contract? If not, on average are RPS facilities generating more or less than the expected amount and by what margin (e.g., 10% greater generation than expected)?
    b. Does the difference in generation amounts result in a commensurate difference in procurement expenditures?
12. Are procurement expenditures associated with utility <u>planned</u> UOG accounted for in the IOU's effective revenue requirement? If not, how should planned UOG with expected expenditures during the 10-year PEL timeframe be reported and accounted for?
13. The Revised Staff Proposal sets the PEL based, in part, on a forecast of renewable resource costs. Please comment on whether any modifications are needed to the Revised Staff Proposal to account for forecast error of renewable resource costs, taking into account existing RPS procurement processes that act to contain costs (e.g., competitive solicitations, LCBF evaluation). Please provide illustrative examples of any proposed modifications.
14. Is it necessary to sum procurement expenditures in a serial manner when calculating RPS procurement expenditures? If so, in what order should expenditures be counted against the PEL?
    a. Should the method for counting expenditures against the PEL Budget be "first in, first counted" based on contract execution date or facility commercial online date?
    b. Should a version of the "loading order" proposed for filling the RNS for PEL purposes (procurement from

specifically mandated RPS procurement programs up to the program limit, then generic RPS procurement) be used? For example, first, forecasted expenditures from all mandated RPS procurement programs, then other expenditures?

c. Should there be a rank ordering based on the nature of the procurement contract? For example, all expenditures from long-term contracts first; all expenditures from other contracts approved through the RPS procurement advice letter process second; all RPS-eligible procurement mandated by the LTPP proceeding third; all procurement from specified RPS procurement methods (RAM and FiT) next, etc.?

d. Should there be some other method?

Please explain the strengths and weaknesses of your preferred method. Please provide quantitative illustrations if relevant.

Please also respond to this question with respect to any updated alternative proposals, to the extent relevant and appropriate in light of the methodologies proposed.

15. What process is needed, if any, to take into consideration the impact on an IOU's PEL in the situation where an RPS-eligible procurement authorization by the Commission, or decision by the IOU, is going to be made outside of the RPS proceeding?

16. How should expenditures for RPS-eligible procurement originally authorized outside the RPS proceeding (e.g., SONGS replacement procurement directed through LTPP, R.12-03-014 or R.13-12-010) be applied against the PEL? For example, should these expenditures only be included once a contract is executed? When the Commission requires a specific level and type of RPS-eligible procurement? When the Commission authorizes a specific level and type of RPS-eligible procurement?

17. What are the overall advantages and disadvantages of the proposed PEL Ratio as the basis for the Commission's determination that a PEL Budget will not have a disproportionate rate impact?

a. What are the advantages and disadvantages of a ratio compared to choosing a fixed percentage impact (e.g., 5% or 10%) on rates?

b. If a fixed percentage is preferable, how would it be calculated? Please provide quantitative examples.

c. Please compare the PEL Ratio proposed by staff to the methods for determining that the PEL will not have a disproportionate rate impact that are proposed in each updated alternative proposal. Please provide quantitative examples if relevant.

18. Please comment on any aspects of the Revised Staff Proposal that have not been covered in the prior questions. Please identify with particularity the aspect of the Revised Staff Proposal being addressed. Please provide quantitative examples or illustrations where relevant.

19. Please comment on any aspects of each updated alternative proposal that have not been covered in the prior questions. Please identify with particularity the aspect of the updated alternative proposal being addressed. Please provide quantitative examples or illustrations where relevant.

IT IS RULED that:

1. Comments of not more than 50 pages, addressing the revised staff proposal and any updated alternative proposals, may be filed and served not later than March 19, 2014. Spreadsheets and quantitative examples in appendices or attachments to comments will not count against the page limit.

2. Reply comments of not more than 30 pages may be filed and served not later than April 3, 2014. Spreadsheets and quantitative examples in appendices or attachments to reply comments will not count against the page limit.

3. In addition to service by electronic mail, paper copies of comments and reply comments, including all appendices or attachments, must be promptly provided to Administrative Law Judge Anne Simon.

4. Please serve comments and reply comments by e-mail on the office of Commissioner Carla Peterman, the assigned Commissioner for this proceeding. Paper copies are not necessary.

Dated February 20, 2014, at San Francisco, California.

/s/ ANNE E. SIMON
Anne E. Simon
Administrative Law Judge

ATTACHMENT A

ATTACHMENT A

Section 399.15(c)—(g) of Public Utilities Code (Enacted by Senate Bill 2 (1X), Stats. 2011, ch. 1)

(c) The commission shall establish a limitation for each electrical corporation on the procurement expenditures for all eligible renewable energy resources used to comply with the renewables portfolio standard. In establishing this limitation, the commission shall rely on the following:
(1) The most recent renewable energy procurement plan.
(2) Procurement expenditures that approximate the expected cost of building, owning, and operating eligible renewable energy resources.
(3) The potential that some planned resource additions may be delayed or canceled.
(d) In developing the limitation pursuant to subdivision (c), the commission shall ensure all of the following:
(1) The limitation is set at a level that prevents disproportionate rate impacts.
(2) The costs of all procurement credited toward achieving the renewables portfolio standard are counted towards the limitation.
(3) Procurement expenditures do not include any indirect expenses, including imbalance energy charges, sale of excess energy, decreased generation from existing resources, transmission upgrades, or the costs associated with relicensing any utility-owned hydroelectric facilities.
(e) (1) No later than January 1, 2016, the commission shall prepare a report to the Legislature assessing whether each electrical corporation can achieve a 33-percent renewables portfolio standard by December 31, 2020, and maintain that level thereafter, within the adopted cost limitations. If the commission determines that it is necessary to change the limitation for procurement costs incurred by any electrical corporation after that date, it may propose a revised cap consistent with the criteria in subdivisions (c) and (d). The proposed modifications shall take effect no earlier than January 1, 2017.
(2) Notwithstanding Section 10231.5 of the Government Code, the requirement for submitting a report imposed under paragraph (1) is inoperative on January 1, 2021.
(3) A report to be submitted pursuant to paragraph (1) shall be submitted in compliance with Section 9795 of the Government Code.
(f) If the cost limitation for an electrical corporation is insufficient to support the projected costs of meeting the renewables portfolio standard procurement requirements, the electrical corporation may refrain from entering into new contracts or constructing facilities beyond the quantity that can be procured within the limitation, unless eligible renewable energy resources can be procured without exceeding a de minimis increase in rates, consistent with the long-term procurement plan established for the electrical corporation pursuant to Section 454.5.

(g) (1) The commission shall monitor the status of the cost limitation for each electrical corporation in order to ensure compliance with this article.
(2) If the commission determines that an electrical corporation may exceed its cost limitation prior to achieving the renewables portfolio standard procurement requirements, the commission shall do both of the following within 60 days of making that determination:
(A) Investigate and identify the reasons why the electrical corporation may exceed its annual cost limitation.
(B) Notify the appropriate policy and fiscal committees of the Legislature that the electrical corporation may exceed its cost limitation, and include the reasons why the electrical corporation may exceed its cost limitation.

(End of Attachment A)

ATTACHMENT B

ATTACHMENT B

Detailed Illustration of Revised Staff Proposal for Methodology for Setting the PEL

For illustrative purposes, Table 1 below shows the quantitative values necessary to calculate an IOU's procurement expenditure limitation (PEL) according the Revised Staff Proposal. Table 1 incorporates the following data and assumptions:

- Data inputs sourced from the public data set served by staff to parties on January 21, 2014;
- RPS procurement expenditures include all executed RPS contracts and planned utility-owned generation;
- RPS procurement expenditures assumes 100% success rate for projects that are in development, but have not yet achieved commercial operation;
- The renewable net short (RNS) is based on the IOU's calculation according to the Commission-approved methodology; and
- RPS procurement expenditures within the effective revenue requirement are removed prior to escalating the revenue requirement by 2.75% per year.

Table 1: Illustrative Example of Methodology and Variables for Calculating the Procurement Expenditure Limitation (PEL)

line	Inputs for Setting the PEL Ratio (2014-2023) ($ millions)	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
a	**Effective Revenue Requirement**	$12,015	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
b	**RPS Procurement Expenditures**	$1,572	$1,837	$2,020	$2,024	$2,117	$2,117	$2,245	$2,187	$2,115	$2,124	$2,131
c	**RPS Procurement Expenditures to Fulfill Renewable Net Short (RNS)**	N/A	$0	$0	$0	$0	$0	$497	$1,213	$1,339	$1,440	$1,514
d	**Effective Revenue Requirement excluding RPS Procurement Expenditures**	$10,443	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
e	**Annual Escalation Factor**	2.75%	2.75%	2.75%	2.75%	2.75%	2.75%	2.75%	2.75%	2.75%	2.75%	2.75%

line	***Methodology for Setting the PEL Ratio & PEL Budget ($ millions)***	**Calculation**	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
f	***Total RPS Procurement Expenditures ($ millions, forecast)***	*line b + line c (annual)*	$1,837	$2,020	$2,024	$2,117	$2,117	$2,742	$3,399	$3,454	$3,563	$3,645
g	*Revenue Requirement - excluding RPS Procurement Expenditure*	*2014: line d * line e 2015-2023: prior year * line e*	$10,731	$11,026	$11,329	$11,641	$11,961	$12,290	$12,628	$12,975	$13,332	$13,698
h	***Total Revenue Requirement ($ millions; forecast)***	*line f + line g (annual)*	$12,568	$13,046	$13,353	$13,757	$14,078	$15,031	$16,027	$16,429	$16,895	$17,343
i	***PEL Ratio (2014-2023)***	*line f / line h (annual)*	14.6%	15.5%	15.2%	15.4%	15.0%	18.2%	21.2%	21.0%	21.1%	21.0%
j	***PEL Budget ($ millions; 2014-2023)***	*sum of line f (2014-2023)*	$26,918									

(End of Attachment B)